IMF SURVEY

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Changes in South Africa Present New Economic Opportunities

Fundamental changes in South Africa's political environment since February 1990, including the progressive dismantling of the apartheid system and removal of the ban on formerly proscribed political parties, present new opportunities for addressing a backlog of acute socioeconomic problems. Although South Africa ranks among upper-middle-income countries on a per capita GNP basis, its income distribution is skewed in favor of the white minority, while the majority of the black population lives in third world poverty. According to a recent study by IMF staff, entitled *Economic Policies for a New South Africa*, "poverty in South Africa is so severe that redistribution policies alone will not be adequate to counter it, but rather must be supported by policies designed to place the economy on a higher growth path."

In this context, a debate has begun on the appropriate economic policies to be pursued in South Africa. The IMF study, published as No. 91 in the IMF's Occasional Paper series, contributes to that debate. It focuses, in particular, on the redistributive and growth policies that will be needed in a new South Africa, the budget options available to effect such policies, and the opportunities for outward-looking policies in the external sector. The study was *(Please turn to page 57)*

South Africa's Oryx gold mine: redistribution of income, without growth, will not eliminate poverty.

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SELECTED TOPICS

U.S. Budget Projects $352 Billion Deficit; President Proposes Recovery Program

On January 29, 1992, U.S. President George Bush presented to Congress his administration's budget for fiscal year 1993, which begins on October 1, 1992. The election-year budget, which projects outlays of $1.516 trillion and revenues of $1.164 trillion, will result in a deficit of $351.9 billion.

Bush's proposed tax changes are designed to spark the nation's listless economy—without adding appreciably to the ever-widening deficit. The proposals include:

- an increase of $500 in the taxpayer's personal exemption for each child;
- a first-year write-off of 15 percent for investment in new equipment;
- a reduction in the capital gains tax to 15.4 percent for assets held for more than three years;
- a deduction for so-called passive losses in real estate for those materially participating in such endeavors;
- a $2,500 nondeductible Individual Retirement Account whose earnings would be tax-free;
- a $5,000 tax credit for first-time home buyers; and
- a permanent 20 percent credit for business investment in research.

To help pay for some of these proposals, the President called for a decrease in overall defense spending to $280.9 billion from $283.8 billion currently. Actual defense spending for the fiscal year would be about $5.2 billion less than allowed under the 1990 deficit-reduction agreement between the White House and Congress. Over the next six years, defense spending would be cut an additional $42 billion below the spending plans the Administration submitted to Congress only last year. The biggest source of the spending cuts is the cancellation of the Stealth bomber, the Seawolf submarine, and other major weapons systems.

The White House presented two sets of economic assumptions in its fiscal 1993 budget—one based on passage of the President's program and the other on "business as usual." Under the former, real GDP would grow by 2.2 percent in 1992, 3.0 percent in 1993, 2.5 percent in 1994, and 2.6 percent in 1995. Under the latter scenario, growth would be 1.6 percent in 1992, 2.4 percent in 1993, 2.5 percent in 1994, and 2.6 percent in 1995.

Under Bush's program, the civilian unemployment rate is projected to be 6.9 percent in 1992, 6.5 percent in 1993, 6.1 percent in 1994 and 5.8 percent in 1995. Under the alternative scenario, the jobless rate would be 7.1 percent in 1992, 6.9 percent in 1993, 6.7 percent in 1994, and 6.3 percent in 1995. As for inflation, as measured by the GDP deflator, the Administration projects virtually no difference between the two scenarios.

Key Elements

The key elements of the President's proposed budget, not including defense, are as follows:

Agriculture. This category, which is one of the few categories that would decline each year, includes farm income supports and agricultural research and services. For fiscal 1993, $15.7 billion has been requested, down from actual outlays of $17.2 billion this year. The administration forecasts a drop to $14.5 billion in fiscal 1994 and to $12.1 billion in fiscal 1995.

Bank Insurance and Thrift Bailout. This category includes deposit insurance obligations and capitalization. The cost of buying out failed institutions is far higher than was anticipated a year ago. The Administration has asked for $55.7 billion in fiscal 1993, up from actual outlays of $47.8 billion last year. This is projected to drop to $6.6 billion in fiscal 1994 and to $2.0 billion in fiscal 1995.

Education. Education research and training as well as Head Start fall into this budget category. The Department of Education would receive a budget increase of 7 percent, the largest of any cabinet department. The request for fiscal 1993 is $49.6 billion, up from actual expenditures of $45.0 billion last year. The projection for fiscal 1994 is $51.5 billion and for fiscal 1995, $50.3 billion.

Environment and Natural Resources. Energy regulation, public land administration, and cleanup of hazardous waste dumps fall into this category. The request for fiscal 1993 is $25.1 billion, up from actual expenditures of $24.2 billion last year. The Administration projects outlays of $25.1 billion in fiscal 1994 and $25.4 billion in fiscal 1995.

Health: This is the most rapidly growing sector of the budget and includes Medicare, Medicaid, health research, health care training, and consumer and

occupational health and safety. Bush asked for expenditures of $237.5 billion in fiscal 1993, up from an actual level of $213.2 billion in 1992. This amount is projected to rise to $265.7 billion in fiscal 1994 and $297.2 billion in fiscal 1995.

Interest Payments. The Administration assumes that, while interest rates will continue to decline, the amount of the national debt will rise over the next several years. It has estimated outlays of $214.0 billion in fiscal 1993 compared with an actual cost of $200.3 billion in fiscal 1992. This figure is projected to rise to $231.8 billion in fiscal 1994 and to $243.0 billion in fiscal 1995.

International. This category includes foreign economic and military aid (including a two-year $500 million program of humanitarian aid and technical assistance for the former Soviet republics), diplomatic activities, and international financial programs. Bush's request for fiscal 1993 is $18.0 billion compared with outlays of $17.8 billion last year. The projection is for an increase to $18.6 billion in fiscal 1993 and to $18.9 billion in fiscal 1995.

Jobless Benefits and Family Support. This category includes housing, food stamps, and child welfare benefits, as well as unemployment compensation. The budget assumes a jobless rate of 6.5 percent in fiscal 1993, down from 6.9 percent this year. The President has requested $199.5 billion for fiscal 1993 compared with actual outlays of

Outlays, Revenues, and Deficits (Excluding Comprehensive Health Reform)

(billion U.S. dollars)

Categories	1991 Actual	1992 Budget	1993 Budget	1994 Budget	1995 Budget	1996 Budget	1997 Budget
Outlays							
Discretionary:							
Domestic	195.4	216.2	224.7	229.3	232.2	236.9	236.8
Defense:							
Department of Defense	309.0	300.4	278.7	270.2	269.6	271.8	274.4
Other Defense	10.7	12.5	12.9	13.4	13.9	14.7	15.3
Total Defense	**319.7**	**312.9**	**291.6**	**283.7**	**283.5**	**286.5**	**289.8**
International	19.7	20.1	20.6	21.4	21.3	21.5	21.2
Total Discretionary	**534.8**	**549.2**	**537.0**	**534.3**	**537.0**	**544.8**	**547.8**
Mandatory:							
Deposit insurance	66.3	80.1	75.7	–25.0	–27.2	–21.7	–32.2
Federal retirement	75.8	78.3	81.1	85.6	88.7	91.2	96.4
Means-tested entitlements	62.6	74.8	77.4	82.5	87.5	89.4	95.5
Medicaid	52.5	72.5	84.5	98.2	113.7	131.1	150.7
Medicare	102.0	116.0	126.5	140.1	156.0	176.2	197.7
Social Security	266.8	284.3	299.7	315.1	330.8	347.4	364.8
Unemployment insurance	25.3	32.0	25.6	25.0	24.7	24.3	24.6
Other	–55.7	–10.9	–4.6	–12.0	–17.8	–28.2	–24.9
Subtotal Mandatory	593.7	727.2	765.9	709.5	756.3	809.6	872.6
Net Interest	194.5	198.8	213.8	231.0	242.2	253.0	263.2
Total Outlays	**1,323.0**	**1,475.1**	**1,516.7**	**1,474.8**	**1,535.5**	**1,607.5**	**1,683.6**
Revenues	1,054.3	1,075.7	1,164.8	1,263.4	1,343.5	1,427.5	1,501.8
Deficit	–268.7	–399.4	–351.9	–211.4	–192.1	–180.0	–181.8
Deficit/surplus (excluding interest)	–74.2	–200.6	–138.1	19.6	50.1	73.0	81.4
Deficit/surplus (excluding deposit insurance and interest)	–7.9	–120.5	–62.4	–5.5	22.9	51.3	49.3
Memorandum							
Deficit on an accrual basis	–268.7	–365.2	–332.7	–242.8	–217.8	–193.7	–203.3
Social security (included above):							
Operating Surplus	53.5	50.2	63.4	75.9	86.9	101.1	115.0
Interest	20.2	23.9	27.0	31.1	35.7	41.1	47.4
Total	**73.7**	**74.1**	**90.4**	**107.0**	**122.6**	**142.2**	**162.4**

Data. Budget of the U.S. Government, Fiscal Year 1993

READEX FICHE

$196.0 billion in fiscal 1992. This figure is projected to rise to $206.4 billion in fiscal 1994 and to $216.7 billion in fiscal 1995.

Justice. Law enforcement, immigration and customs, the drug war, and courts and prisons fall under this rubric. The request is for $15.4 billion for fiscal 1993, up from actual outlays of $14.1 billion last year. The forecast is for a budget of $16.0 billion in fiscal 1994 and $15.7 billion in fiscal 1995.

Science and Technology. This category covers the space station and the National Science Foundation. The President has requested $17.0 billion for fiscal 1993 compared with actual outlays of $16.4 billion in fiscal 1992. The projection is for an increase to $18.1 billion in fiscal 1993 and to $18.4 billion the following year.

Social Security. Pledging not to reduce benefits, Bush called for outlays of $302.3 billion in fiscal 1993 compared with actual outlays of $286.7 billion in fiscal 1992. The total is projected to rise to $317.7 billion in fiscal 1994 and to $333.4 billion in fiscal 1995.

Transportation. The budget proposes cuts in mass transit and increased outlays for highways. The President has asked for $35.1 billion in fiscal 1993 compared with actual outlays of $34.0 billion last year. The projection for fiscal 1994 is $36.7 billion and for fiscal 1995, $37.0 billion.

Veterans. About half the money is earmarked for pensions and the rest mostly for health care. The Administration is requesting $34.3 billion for fiscal 1993, up from actual outlays of $33.8 billion last year. It projects outlays of $36.2 billion in fiscal 1994 and $35.9 the following year.

The President's proposed budget now goes to Congress, which is likely to alter substantially his tax proposals.

Gerald R. Rosen,
Editor, *IMF Survey*

IMF Study Examines Arab Financial Flows

Arab financial flows, together with workers' remittances, had a major impact on the economies of Arab recipient countries and "undoubtedly accelerated the recipient countries' economic development beyond what would have otherwise been possible," concludes *Financial Assistance from Arab Countries and Arab Regional Institutions*.

The study, which was written by Pierre van den Boogaerde, an Economist in the IMF's Middle Eastern Department, is No. 87 in the IMF's Occasional Paper series, offers the first comprehensive look at the volume and distribution of Arab financial flows from 1973 to 1989.

Background

Variations in oil prices played an important role in determining the volume of Arab assistance, which grew very rapidly from 1973 through 1980 in line with dramatic increases in oil prices and government revenues. Disbursements fell in the 1980s as oil prices declined, but van den Boogaerde notes that even this represented a remarkable phenomenon.

"Often overlooked," he says, "is that Arab donors have been the most generous donors in terms of percent of GNP. That remains true despite the decline in oil revenues. Their concessional contributions represented 2 percent to 3 percent of their GNPs—as high as 4.72 percent from 1973 to 1978 and as low as 0.84 percent in 1988—but even the lowest figure was above the UN recommended level of 0.7 percent and above the OECD's [Organization for Economic Cooperation and Development] DAC [Development Assistance Committee] level, which varied between 0.3 percent and 0.38 percent for this period."

Donor Country Contributions

During 1973–89, Arab donor countries contributed nearly $100 billion to developing countries and multilateral aid agencies. Net disbursements increased from $2.6 billion in 1973 to their highest level, about $11 billion, in 1980 and 1981. Financial assistance began to decline in 1982, dropped to $300 million in 1988, and was negative in 1989. The very low levels in 1988 and 1989, the study finds, reflect reflows of principal payments, heavy military expenditures, and the cessation of large amounts of general support assistance to Jordan and the Syrian Arab Republic.

Concessional flows made up about 85 percent of total financial flows, and between 1973 and 1984, Arab donors were the second largest concessional donor group after the DAC countries. Arab donors accounted for 17 percent of total disbursed official development assistance in 1973, averaged 23.5 percent between 1974 and 1981, and then fell to a low of 2.8 percent in 1989. Three traits characterized Arab concessional aid: a high percentage of bilateral aid (above 90 percent for most of 1973–81 and an average of 84 percent thereafter); a major portion of aid extended in grant form and "untied" (not dependent upon purchases of materials from the recipient country); and the direction of aid significantly influenced by political developments in the Arab world.

Multilateral Aid Agencies

Arab donor countries formed 12 multilateral organizations and funds to as-

sist developing countries. The largest are the Arab Fund for Economic and Social Development (AFESD), the Islamic Development Bank (IsDB), the Organization of Petroleum Exporting Countries' (OPEC) Fund for International Development, the Arab Monetary Fund (AMF), and the Arab Bank for Economic Development in Africa (BADEA). The Gulf Organization for the Development of Egypt (GODE), discontinued lending in 1978 but resumed its activities in 1990.

The IMF study reviews the origin, goals, and lending of these organizations and the Arab Authority for Agricultural Investment and Development (AAAID), the Arab Fund for Technical Assistance to African and Arab Countries (AFTAAAC), the Arab Gulf Program for UN Development Organizations (AGFUND), the Islamic Solidarity Fund (ISF), the Organization of Arab Petroleum Exporting Countries' (OAPEC) Special Account, and the Special Arab Aid Fund for Africa (SAAFA), which merged with BADEA in 1978.

By the end of 1989, cumulative commitments were close to $21 billion, slightly less than half of which was extended on a concessional basis, and net disbursements were $7.5 billion, 70 percent of which was concessional. Concessional multilateral assistance peaked in 1976–78 because of very large payments through GODE.

Nonconcessional multilateral net disbursements largely began in 1977 when the Arab Monetary Fund and the Islamic Development Bank began operations. Two agencies, the AAAID and the AMF, extended exclusively nonconcessional aid. Nonconcessional disbursements were characterized by wide fluctuations throughout 1977–85; they turned negative in 1986–87 and recovered in 1988–89. Multilateral assistance forms a much larger part of total nonconcessional disbursements (20 percent) than of concessional assistance.

Net Disbursements

From 1973 to 1989, cumulative bilateral concessional assistance from Arab donor countries amounted to $73.4 billion, of which $44.3 billion of the identified flows went to Arab countries. The share of the total going to Arab countries reached a high of 81 percent in 1977 and averaged 60 percent over the period.

Arab Middle Eastern countries received 37.5 percent of the total, with the Syrian Arab Republic receiving

Contribution of Aid by Arab Donor Countries, 1973–89

(net disbursements, million U.S. dollars)

	1973	1975	1977	1979	1981	1983	1985	1987	1989	1973–89 Total[1]	1973–89 Percent
Total flows	**2,572.4**	**8,096.0**	**7,248.4**	**6,435.6**	**10,916.4**	**9,100.4**	**2,820.2**	**2,515.6**	**–2,201.4**	**99,700.5**	**100.00**
(percent of GNP)	(7.08)	(7.97)	(4.79)	(2.91)	(3.07)	(3.05)	(1.04)	(0.92)	...		
Concessional (ODA)	2,138.3	5,417.3	5,760.6	7,251.9	8,308.4	4,798.3	3,608.9	3,289.6	1,486.6	85,123.0	85.38
(percent of GNP)	(5.88)	(5.33)	(3.81)	(3.28)	(2.34)	(1.61)	(1.33)	(1.21)	...		
Bilateral	2,058.3	4,904.2	3,977.9	6,571.6	7,576.0	3,863.3	2,974.9	2,931.5	1,316.6	73,413.4	73.63
Multilateral	80.0	513.1	1,782.7	680.3	732.4	935.0	634.0	358.1	170.0	11,709.6	11.74
UN agencies, funds	3.5	63.4	45.1	97.5	101.0	81.8	43.4	44.4	30.3	1,274.3	1.28
IMF Trust Fund and Subsidy Account	—	—	11.5	42.9	—	5.0	5.0	—	—	127.4	0.13
IBRD and IFC	0.7	30.0	—	—	5.9	63.6	1.6	64.7	4.7	493.9	0.50
IDA	4.4	9.0	66.7	75.8	134.3	179.5	198.2	149.0	8.3	1,782.0	1.79
AfDB	15.5	9.9	16.8	24.0	35.9	22.5	20.8	40.9	67.4	400.8	0.40
OPEC Special Fund	—	—	103.2	84.1	197.6	215.8	44.6	29.5	16.3	1,403.5	1.41
AAAID	1.3	19.3	15.6	82.6	69.3	41.5	—	—	—	439.9	0.44
AFESD	46.1	182.4	92.5	82.0	157.3	191.3	163.7	—	8.0	1,921.7	1.93
BADEA	3.5	44.6	70.0	35.0	10.0	—	—	—	—	351.1	0.35
GODE	5.0	35.0	1,232.8	32.3	—	—	—	—	—	1,930.7	1.94
IsDB	—	72.9	112.4	115.0	9.0	101.0	100.9	—	—	973.2	0.98
ISF	—	3.6	1.5	8.0	—	—	1.3	9.2	—	63.4	0.06
Others	—	43.0	14.6	1.1	12.1	33.0	54.5	20.4	35.0	547.7	0.55
Nonconcessional	434.1	2,678.7	1,487.8	–816.3	2,608.0	4,302.1	–788.7	–774.0	–3,688.0	14,577.5	14.62
Bilateral	152.3	1,114.3	739.5	350.3	1,320.4	275.8	–442.1	–117.0	...	8,683.3	8.71
Multilateral	281.8	1,564.4	748.3	–1,166.6	1,287.6	4,026.3	–346.6	–657.0	–3,688.0	5,894.2	5.91

[1]Total includes flows for all years 1973–89.
... indicates data not available.
— indicates zero.

Data: IMF, *Financial Assistance from Arab Countries and Arab Regional Institutions*

the largest share (16 percent of total contributions). Arab African countries benefited from 20.7 percent of the total, with Egypt the largest recipient of aid. Non-Arab countries received about 22 percent of total identified flows, with nearly two thirds of that aid directed to Asia and slightly less than one third to Africa.

Of $5.3 billion in concessional assistance extended by Arab multilateral institutions, two thirds was disbursed to Arab countries, with three fourths directed to Arab Africa (primarily Egypt and Sudan) and one fourth to the Arab Middle East. The remaining one third went to a very diverse group of non-Arab countries, of which sub-Saharan Africa received the largest portion (18 percent of total flows).

In addition, Arab donors provided $8.7 billion in bilateral nonconcessional assistance from 1973 to 1989. Arab countries received 60 percent of these flows. Among non-Arab recipients, Western Hemisphere countries figured prominently, primarily because of several large loans to Brazil. Multilateral nonconcessional assistance totaled $2.2 billion over the same period, mostly consisting of trade financing by the Islamic Development Bank and various loan facilities of the Arab Monetary Fund. Since these two institutions lend only to member countries, 84 percent of multilateral nonconcessional assistance was directed to Arab countries.

Impact on Arab Countries

Between 1973 and 1989, the study notes, cumulative official assistance from Arab donor countries and agencies to Arab recipient countries totaled $55 billion. If net workers' remittances—$87 billion over the same period—are included, flows to Arab recipient countries totaled $142 billion. The study finds that "during this period these two financial flows taken together represented on average about 5.5 percent of the Arab recipient countries' GNPs, nearly one fifth of their imports, and more than 20 percent of their total investment." For some countries, the study adds, the contribution was much more significant, representing more than 100 percent for certain years.

The study also examines their qualitative impact and finds a more mixed picture. While these flows enabled many of these countries to graduate from developing to middle-income countries, they also, the study notes, induced several negative side effects, including "entrenched consumption habits, a high dependency on imported goods . . ., and a higher degree of vulnerability to external shocks."

The 1990–91 crisis in the Middle East is likely to have, the study adds, a "profound impact on Arab aid flows in the coming few years." It projects a prolongation of the declining trend evident in past years and anticipates a redirection of aid in favor of certain recipients. Multilateral agencies, however, are expected to continue their assistance programs unabated, and private investment from oil producing countries is expected to play an increasing role in assisting neighboring countries that are embarking on economic reform.

"All in all," the study concludes, "assistance will continue to play a substantial role, and it will be an important element in the formidable task of both reconstruction and structural adjustment in the economies of the region."

Profile of Multilateral Arab Aid Agencies

(as of December 31, 1989)

Institutions	Start of Operations	Subscribed Capital	Commitments		Net Disbursements	
			(million U.S. dollars)			
			Total	Concessional	Total	Concessional
AAAID	1978	342	302	—	302	—
AFESD	1973	2,574	3,961	3,105	1,557	1,248
AFTAAAC	1976	42	42	42	42	42
AGFUND	1981	208	176	176	176	176
Arab Monetary Fund[1]	1977	1,425	2,044	—	861	—
BADEA	1975	698[2]	946	553	355	231
GODE	1976	2,000	1,811	1,811	1,725	1,725
Islamic Development Bank	1976	2,550[3]	8,727	1,097	819	319
Islamic Solidarity Fund	1975	124	111	111	111	111
OAPEC Special Account[4]	1974	116	116	116	116	116
OPEC Special Fund[5]	1976	2,463	2,534	2,331	1,262	1,181
SAAFA[4]	1974	350	214	214	172	172
Total		**12,892**	**20,984**	**9,556**	**7,498**	**5,321**

[1]The AMF is not treated in Development Assistance Committee statistics as an aid agency.
[2]Excluding SAAFA's capital, which was merged with that of BADEA in 1976.
[3]Based on lunar Hijra year 1410, that is, year to July 22, 1990.
[4]No longer operational.
[5]Excluding contributions to IFAD and IMF Trust Fund.

Data: IMF, *Financial Assitance from Arab Countries and Arab Regional Institutions*

Copies of *Financial Assistance from Arab Countries and Arab Regional Institutions* are available for US$15.00 (US$12.00 for full-time university faculty and students) from Publication Services, Box S-339, International Monetary Fund, Washington, D.C. 20431, U.S.A.

Industrial Country Fiscal Balances Showed Enormous Variety in 1990

For industrial countries, the impact of central government operations on their economies, as measured by the overall deficit or surplus as a percentage of GDP, continued to vary enormously between countries in 1990, according to the IMF's recently released *Government Finance Statistics Yearbook*. Of the 12 industrial countries for which 1990 data have been received, 7 had deficits, and 5 had surpluses. The spectrum of the outcome of fiscal operations ranged from a deficit equivalent to 10.3 percent of GDP for Italy to a surplus of 3.3 percent for Sweden.

For general government (central, regional, and local government combined), 9 of the 14 countries for which data are available recorded a deterioration in their fiscal position in 1989—insufficient noncentral government data have been received for 1990 to review the data for that year—compared with the fiscal position of the central government alone. This deterioration in general government fiscal balances indicates that for these countries, the operations of regional and local governments also resulted in a deficit. Austria, Ireland, the Netherlands, the United Kingdom, and the United States recorded surpluses at the noncentral government level in 1989.

In recent years, central government fiscal balances for developing countries as a percentage of GDP have tended to be greater than those for industrial countries. Of the 47 developing countries for which fiscal balances were reported in 1989, 41 recorded deficits. Regional and local government fiscal balances were available in 1989 for 21 of these countries, 16 of which recorded deficits.

On a regional basis, available data for central government show a deficit in 1989 for all 6 reporting African countries. In Asia, 10 of the 13 reporting countries recorded deficits, with Nepal reporting the largest relative deficit (10.2 percent of GDP) and Bangladesh the smallest (0.4 percent). The three countries with surpluses were Korea, Singapore, and Thailand.

Five out of seven European developing countries posted fiscal deficits in 1989.

Five out of seven European developing countries posted deficits in 1989, the two exceptions being Romania with a surplus equal to 8.2 percent of GDP and Yugoslavia with a surplus of 0.2 percent of GDP. In the Middle East, all the reporting countries in 1989 had deficits, ranging from 0.6 percent for the United Arab Emirates to 9.0 percent for Oman. Similarly, in the Western Hemisphere, 14 out of 15 countries had fiscal deficits, ranging from 0.6 percent of GDP in Belize to 16.1 percent of GDP in Brazil. Paraguay recorded the only surplus.

Industrial Countries

Revenues. Taxes on income and profits, together with social security contributions, continued to be the mainstay of the revenue base of industrial countries in the period under review. Of the 18 countries for which 1989 (1990 for New Zealand) data are available, only Portugal and the 4 Nordic countries of Denmark, Finland, Norway, and Sweden reported that these sources produced less than half their revenue. Reliance on these taxes increased between 1984 and 1989 for 9 of the 18 countries, with particularly large relative increases of 6.8 percentage points for the Netherlands; 6.1 percentage points for Canada; and 4.2 percentage points for the United States, where the percentage of total revenue accounted for by these revenues rose in 1989 to 86.4 percent. The next largest share was 71.3 percent for Germany. For countries for which these revenue sources declined in relative terms, Norway recorded the only significant decline, with a 6 percentage point drop to 40 percent.

Taxes on domestic goods and services were the other main source of revenue for most industrial countries. In 1989, these taxes produced over 40 percent of total revenue for Denmark and Finland. For all other countries, except the United States, the revenue percentage ranged from 19.6 percent for Canada to 36.4 percent for Norway. In the United States, however, the central government relied very little on taxes on domestic goods and services, which accounted for only 3.2 percent of total revenue in 1989, down from 5.2 percent in 1984. The proportion of revenue accounted for by such taxes was quite constant in most industrial countries over the period shown in the *Yearbook*.

IMF Publishes *Government Finance Statistics Yearbook*

The 1991 edition of the *Government Finance Statistics (GFS) Yearbook*, which provides detailed information for 125 countries, follows the compact format adopted in the 1989 edition. In addition, for the first time since 1988, the *Yearbook* presents detailed information on the structure of the public sector, listing all financial and nonfinancial institutions, instead of annual changes. To make the *GFS Yearbook* as accurate and current as possible, preliminary, provisional, and projected data are included where possible.

The 1991 *GFS Yearbook* presents data on consolidated central government revenue, grants, expenditure, lending, financing, and debt; for some countries, separate details are provided on budgetary and extrabudgetary accounts of central government and social security funds. It also provides similar, though less detailed, data for state and local governments for many countries, as well as data for all levels of government consolidated into general government.

To facilitate international comparisons of central and general government operations, the *Yearbook* provides country data on selected topics grouped by region rather than by country. These tables show, as a percentage of GDP, total central and general government revenue, total expenditure, and total expenditure and lending minus repayments.

The *Government Finance Statistics Yearbook*, prepared by the Government Finance Division of the IMF's Statistics Department, may be purchased for US$48.00. Computer tape subscriptions, which provide more current data as well as data for earlier years, are also available. Please write to Publication Services, Box S-341, International Monetary Fund, Washington, D.C. 20431, U.S.A.

Taxes on international trade and transactions and other taxes were relatively unimportant revenue sources for industrial countries. Nontax revenue was more important, ranging in 1989 from 2.9 percent of total revenue for Italy to 20 percent for Norway. Only two other countries, Finland and Sweden, had percentages over 10 percent.

Outlays. In industrial countries, general government expenditure on social security and welfare, as a percentage of GDP, was much larger in the 1980s for European than for non–European countries, with Denmark recording the largest relative expenditure of 24.7 percent in 1988 compared with 8.6 percent for the United States. All countries for which data are available have experienced some decline in these types of expenditure as a proportion of GDP.

Expenditure on education and health for each country as a percentage of GDP was quite comparable, while the range of expenditure between countries—clustering around 5–6 percent—was, for the most part, much less than for social security and welfare. Central government outlays on defense relative to GDP have been declining for almost all industrial countries since the mid-1980s, ranging in 1989 from a high of 5.8 percent of GDP for the United States to a low of 0.8 percent for Luxembourg.

Information on expenditure by economic type is also more readily available for the central government than for the general government. The data show that subsidies and other current transfer payments accounted for over 50 percent of the outlays (expenditure and lending minus repayments) of all but two reporting industrial countries in 1989. The two exceptions were Portugal at 36.1 percent and the United States at 49.6 percent. Sweden recorded the highest proportion—73.1 percent—while many countries were in the range of 60–70 percent.

The major components of expenditure by economic type remained, for the most part, quite stable over the period from 1984 to 1989, although subsidies and other current transfer payments for New Zealand and Sweden recorded sharp increases as did interest payments for Canada.

Developing Countries

Revenues. For the majority of reporting developing countries in 1989, taxes on domestic and international goods and services constituted the most important source of revenue. Of the 70 countries for which data were available, 31 reported that over 50 percent of their revenue came from these taxes. Heavy reliance on this revenue source was not, however, spread evenly on a geographic basis because only one developing country in Europe—Yugoslavia—and none in the Middle East reported obtaining 50 percent or more of their revenue from these taxes, compared with just over half of the developing countries in Africa, Asia, and the Western Hemisphere.

Taxes on income and profits together with social security contributions accounted for at least half of total revenue for only four countries. The majority of countries in Africa and Asia, as well as half the Middle Eastern countries, reported no social security contributions.

In contrast to the industrial countries, nontax revenue was a significant source of revenue for many developing countries, accounting for at least 20 percent of total revenue for 25 countries, including all the reporting countries of the Middle East—except Israel—and the majority of European developing countries.

The importance of grants as a source of receipts varied enormously among developing countries, with eight countries reporting grants equivalent to at least 20 percent of revenue.

Outlays. In the limited number of developing countries for which general government data are available, expenditure on social security and welfare as a percentage of GDP was highest for the European countries, ranging, in 1989, from 8.0 percent for Yugoslavia to 19.3 percent for Czechoslovakia. Only two other reporting developing countries, Israel and Chile, had general government expenditure on social security and welfare of above 10 percent of GDP in 1988.

The relative importance of expenditures on education and health tended to be lower than for social security and welfare in the developing countries of Europe, the Middle East, and the Western Hemisphere.

For defense, only central governments in countries in the Middle East reported expenditures in 1989 equivalent to 5 percent or more of GDP, and in all of them, relative expenditure declined compared with, for instance, expenditure in 1985.

The pattern of expenditure by economic type between developing and industrial countries is also quite different. In 1989, the central governments of 40 developing countries reported that at least 20 percent of their total outlays (expenditure plus lending minus repayments) were spent on wages and salaries. Of the industrial countries, Luxembourg reported the highest percentage at 18.4 percent; most industrial countries were well below this figure.

Other current transfer payments accounted for at least 20 percent of total outlays for 29 developing countries, with only 2 countries, Czechoslovakia and Hungary, at over 50 percent. This compares with the industrial countries, where only 2 countries were below 50 percent. The experience for interest payments, however, was more comparable between the two groups of countries, with only 4 developing countries (Brazil, Malaysia, Mexico, and the Philippines) recording interest expenditures above 20 percent of total outlays.

The figures for capital expenditure show a heavy concentration of expenditures by developing countries, with 24 countries indicating that these expenditures accounted for at least 20 percent of total outlays.

Government Finance Division,
IMF, Statistics Department

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
February 10	6.61
February 17	6.59

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates, call (202) 623-7171.

Data: IMF Treasurer's Department

South Africa's Economy Is Racially Skewed

(continued from front page) edited by Desmond Lachman and Kenneth Bercuson of the IMF, with a staff team comprising Daudi Ballali, Robert Corker, Charalambos Christofides, and James Wein.

Poverty Profile

Based on GNP per capita and the structure of production, South Africa ranks as an upper-middle-income country. However, the study notes, this is deceptive in that "the benefits deriving from the economy accrue disproportionately to the white minority."

The World Bank records a per capita GNP for South Africa of $2,290 in 1988 and groups it with the upper-middle-income Latin American countries, Hungary, and the Republic of Korea. In contrast, the income levels of the black population and the social indicators pertaining to this sector of the community are comparable to those of the poorer countries that border South Africa.

In the 1970s, the black population caught up to some extent with the living standards of the white population by moving to the more economically active urban areas. The reduction in economic growth throughout the 1980s, however, which particularly affected black employment and wage growth, curbed this trend toward income equalization.

The study points out that direct measures of income may understate the incidence of poverty because they exclude wealth, certain sources of unrealized income, and the higher costs of living that habitually face the poor.

It suggests that because government action often has a stronger equalizing effect on social indicators than it does on income, social indicators may provide a more reliable comparison of living standards than that shown by the data on income distribution.

For example, literacy indicators show that blacks lag substantially behind all other races. Data also show that for blacks, pupil-to-teacher ratios in 1985–87 were more than twice those for whites and for Asians, and only slightly less than twice those for coloreds. In 1987, only 65 percent of black children between the ages of 5 and 19 attended school, compared with over 77 percent for the other racial groupings.

Labor Income

The labor market distortions and rigidities inherent in South Africa's apartheid system have gradually eased since the early 1970s, the report points out. During that period, the share of nonwhite labor income in total GDP increased significantly, to 34 percent in 1989 from 26 percent in 1970.

The study provides an empirical analysis of the changing nonwhite labor income share and looks at how diminishing discrimination has affected labor markets. Based on that analysis, the authors conclude that a principal factor in the improvement in labor income distribution over the past two decades has been the reduction in the gap between white and nonwhite wages for jobs requiring similar skills, which the study estimates has declined from 90 percent at the beginning of the 1970s to about 14 percent currently. The study also concludes that further improvements in income distribution between the races will, therefore, have to derive mainly from better training and employment opportunities for nonwhites rather than from the elimination of the remaining gap between wages for different racial groups.

Medium-Term Scenarios

South Africa's policymakers face an urgent need to raise living standards and improve the distribution of income and wealth. According to the study, "unless the rate of economic growth rises to a level well above that of the last decade, there is little prospect for reducing the current very high level of underemployment in the economy or for generating the resources needed to address social needs on a sustained basis."

The study provides an analysis of medium-term growth policies based on some illustrative simulations carried out on a highly aggregated model of the South African economy.

The baseline scenario presented in the study is concerned with a level of domestic savings and investment that would support a rate of long-term economic growth consistent with both an improvement in living standards and a steady decline in the underemployment rate. With the population expected to grow by over 2¼ percent a year, a meaningful increase in living standards would require GDP growth of at least 3½ percent a year. At the same time, the objective of reducing underemployment would require employment growth of at least 3 percent a year. According to the analysis in the study, meeting the objectives assumed in the baseline scenario would require a marked improvement in investment performance. Specifically, capital accumulation would have to be strong enough to raise the investment/GDP ratio steadily, to 27 percent by the end of the period from its current level of 19 percent.

The baseline scenario demonstrates the need to maintain public savings at a level high enough to support the overall domestic savings and investment effort, which, in turn, has clear implications for the design of budget policy in South Africa. For public spending to be increased relative to GDP, the overall tax burden would need to be increased. However, with the large rise in general government revenue in relation to GDP over the 1980s, the scope for raising revenues further without inducing severe disincentive effects might be limited, the study points out.

As an alternative scenario, the study looks at what would happen if government savings were reduced relative to the baseline case, but with no corresponding increase in foreign or private savings. This scenario demonstrates that if resources are appropriated for current expenditures, there would be fewer resources for capital accumulation and consequently less economic growth to generate resources in the future.

A third scenario explores the effect of rapid real wage growth as the result of, for example, increased militancy of the unions. It finds that the main effect of higher real wage growth is a reduction in the demand for labor. And lower employment growth im-

plies that the recent upward trend in the nonwhite underemployment rate would not be arrested.

Social Spending

South Africa's policymakers "will need to address the question of how far and how fast to move to a more equitable pattern of social spending across racial groupings and to extend social services to those who currently do not receive social benefits," according to the report. It notes that social spending in South Africa—net of social security payments—has risen to levels that are relatively high by international standards. However, the scope for addressing social problems through raising further the share of these expenditures in the budget appears to be limited. Rather, the study concludes, "a basic reordering of priorities within the present social spending budget is required if South Africa's social problems are to be addressed without resorting either to deficit financing or to increased fiscal revenues."

The study attempts to quantify, in a medium-term framework, the implication of moving toward equal rates of spending per capita across racial groups in the education, health, and social welfare sectors of the budget while at the same time maintaining overall fiscal discipline. It concludes that "a move in such a direction, while likely to result in a substantial decline in benefit rates for nonblacks, would entail limited increases in benefit rates for blacks from relatively low levels."

Tax System Analysis

The study points to the critical need for South African policymakers to consider the extent to which taxes might be raised to finance an increased level of social expenditure. Currently, South Africa's tax revenues derive mainly from four sources: the individual income tax; a general sales tax; direct taxation of companies other than mines; and the taxation of the mines.

The composition of revenues changed markedly over the 1980s, the study says. As a proportion of total receipts, individual income tax collections and sales taxes posted strong increases, while mining taxes declined sharply. Collections from "other taxes" dropped over the decade, from 24 percent of total collections to 7 percent, and the Government relied primarily on the general sales tax rather than on the specific excise taxes to raise revenues.

Estimates of the distribution of taxes by racial groups indicate that even though the composition of taxation underwent a marked change during the 1980s, the relative distribution of the tax burden by racial group has not changed dramatically. The share of taxes paid by whites is estimated to have declined only from 77 percent of the total in 1975 to 72 percent by 1987. Over the same period, there was a marked reduction in the share of total social benefits received by whites—from 56 percent of the total in 1975 to 35 percent in 1987.

The study cautions that raising tax rates in South Africa would be likely to raise disincentives to levels that are very high by international standards. It suggests, however, that revenues could be raised by improving the efficiency and equity of the tax system, by reducing tax expenditures, by broadening the tax base, and by changing the mix between direct and indirect taxes.

Handwoven tapestry in South Africa: further improvements in income distribution will derive from better training and employment opportunities.

External Policies

South Africa's trade policy has traditionally aimed at import substitution and inward-looking development, and the application of trade sanctions against the country in the mid-1980s lent considerable impetus to those tendencies, the report claims. Import surcharges, especially on luxury goods, have resulted in an estimated average rate of effective protection of more than 30 percent for the manufacturing sector. The prospect of an early lifting of international trade sanctions, however, has prompted the Government to review the current system of protection with a view to moving toward a more open trade regime.

Copies of *Economic Policies for a New South Africa* are available for US$15.00 (US$12.00 to full-time faculty members and students at universities and colleges). Please write to Publication Services, Box S-340, International Monetary Fund, 700 19th Street, N.W., Washington, D.C. 20431, U.S.A.

IMF ACTIVITIES

Managing Director's Address . . .

Political and Economic Changes Offer Opportunities and Entail Risks

Following are excerpts from a speech prepared for delivery by IMF Managing Director Michel Camdessus to the United Nations Conference on Trade and Development (UNCTAD) VIII in Cartagena, Colombia, on February 11, 1992:

It is an honor to be able to discuss with you some of the important questions of international trade, finance, and development as they affect the prospects of the developing countries . . . . The momentous changes in the political and economic framework are bringing new opportunities, but these are accompanied by many risks.

It will take time and effort to bring these opportunities to fruition, as the history of humanity so often shows. But the risks are immediate. They are with us now, and they are pressing. Together the opportunities and risks are creating a dangerous period of transition, particularly in the next few years. Some of these risks are sufficiently serious that they could prevent us from reaping the potentially rich harvest of our efforts.

Momentous changes in the political and economic framework are bringing new opportunities.

The more integrated world economy that is emerging because of these developments . . . is one that carries the potential for stronger and more broadly based development, worldwide, over the longer term. The developing countries, indeed, should find in a more open global economy a larger scope to grow and prosper. But these potential benefits will not come easily. And the more open and more integrated global economy, in which by definition countries are more interdependent, also carries some serious risks. I shall focus on three types of risk—instability, marginalization, and most important, the risks inherent in a period of transition.

The risks of instability, first, are well known and on this I can be brief. It is feared by some that the more open and less regulated international markets may in some sense be potentially less stable. This is true in the simple definitional sense that the greater freedom of capital movements has increased the scope for large and sudden shifts of funds that could, in some circumstances, pose a threat to the stability of exchange markets and financial markets. And related to this, the closer interdependence of countries may increase the scope for the transmission of economic imbalances across borders. But, while it is prudent to be alert to these potential threats, I would note that, so far, the international economic system has proved to be quite robust and resilient. In part, this is due to the strengthening of our mechanisms of international cooperation and surveillance in which the IMF has special responsibilities. Policy cooperation, and the convergence by many of the major industrial countries on policies that aim at a gradual lowering of inflation, has contributed to a reduction of the degree of exchange rate instability over the past decade, even if at times there have been some noticeably wide swings. In addition, the international financial system has coped reasonably well with a number of serious shocks. So on balance I would say that, although the risk of financial instability is always with us, the progress achieved in financial cooperation justifies confidence in our ability to deal with it—provided we stay vigilant and keep financial developments and our means of cooperation constantly under review.

The second risk is that of marginalization. In the many developing countries I have visited over the past year, I have frequently heard three questions:

- Will we be left on the periphery of the rapidly expanding network of trading and financial links?
- Will we be shortchanged in the competition for development assistance?
- Will our valid interests be accorded sufficient weight in the mechanisms for international cooperation?

In the field of trade, there is no inherent reason why smaller countries should be put at a disadvantage by the closer

integration of world markets. On the contrary, globalization should increase their chances of finding suitable outlets for their products and expand their scope for exploiting their comparative advantage. And in practice, we see many cases of smaller countries that are experiencing rapid development on this basis. Where there is a risk, I think, is that those countries that have not yet embarked on a vigorous growth-oriented strategy, that have not yet taken the basic decision to open their domestic economy to full participation in international trade, or that have not yet moved to create a domestic climate that is favorable to domestic and foreign investment may find that they lose out.

Also in the trade field, there are widespread worries stemming from the difficulties that have been encountered in completing the Uruguay Round. In particular, will world trading arrangements deteriorate for some developing countries as a result of increased protectionism or because regional trading arrangements (especially in North America or in Europe) might become more inward looking? The solution, again, depends now entirely on mustering the political will necessary to bring the Uruguay Round to a conclusion in a way that produces meaningful liberalization of trade in goods and services and a reasonable and transparent set of rules.

Michel Camdessus: poverty alleviation has to become more of an integral element of any growth-oriented structural adjustment program.

[T]his leads me to stress the *risks of transition* that lie in the period ahead. If the countries that are undertaking structural adjustment, or those that are in transition to a market economy, do not persevere with sound policies, or if the rest of the world fails to extend sufficient assistance, then they will be unable to deliver to their people the progress they are promising them in terms of higher growth and improved living standards. And this failure will entail the danger of losing the benefits of globalization, undermining democracy itself, and it may undermine the prospects for a more peaceful and cooperative world order.

The next few years, therefore, will be a time of great risks—risks that "adjustment fatigue" may be matched by "donor fatigue," and risks of all possible kinds of vicious cycles, as failure in one area might contribute to failure in another.

I would like to single out four broad areas where stronger action is desirable, by both the industrial and developing countries:

First, better policies should be matched by better financing.

[O]n *policies*, you know well enough the kinds of policies that the IMF advises. There is now a very widespread consensus on the basic elements of an economic strategy that is proving, in many countries, that it can produce sustained and healthy growth over the medium term. These basic elements are now familiar—sound fiscal and monetary policies to maintain discipline and set a stable medium-term economic framework; an outward orientation with respect to trade, investment, and competition; and an emphasis on far-reaching structural reforms to increase the efficiency of market mechanisms, promote savings and investment, and foster long-term gains in the productiveness of the economy.

[O]n *financing*, it is now increasingly urgent that the industrial countries send a clear and convincing message to the developing countries, and especially to all those with adjustment programs or that are moving to a market economy—the message that good policies will be matched by adequate and timely financing. The level of ODA [official development assistance] is far from sufficient, and I regard it as an inescapable obligation of the industrial countries to increase it. In addition, the usefulness of existing levels of assistance could be increased if donors simplify and speed up their procedures for disbursement.

Before leaving the subject of finance . . . I recall that in July 1987 I had the privilege of informing UNCTAD VII about the creation of the Fund's enhanced structural adjustment facility (ESAF). In addition to more than tripling the resources available for the SAF [structural adjustment facility], this facility has served the poorest developing countries well; in particular, the growth performance of the countries that have applied the stronger structural adjustment programs that we can support with ESAF has improved remarkably—with growth rates in most cases that are about double those of the previous period. Partly because of these encouraging results, the membership is considering extending ESAF eligibility to 11 additional countries (Albania, Angola, Côte

d'Ivoire, Dominican Republic, Egypt, Honduras, Mongolia, Nicaragua, Nigeria, the Philippines, and Zimbabwe).

Second, "good governance." There is scope for a wide range of worthwhile initiatives in this field. In particular, the industrial countries should increase their provision of technical assistance, wherever this is needed to enhance the effectiveness of adjustment programs or systemic reforms, through institution building, training, or in many other ways. And the recipients of such technical assistance, for their part, may have to undertake far-reaching reforms so that they can make the best use of it.

Third, poverty alleviation, including adoption of appropriate social safety nets, has to become more of an integral element of any growth-oriented structural adjustment program, or any program aimed at transition to a more efficient economic system. I urge the donor countries to increase their efforts in this field and to target their assistance in ways that foster human development. And the developing countries, for their part, can help to boost public support in the donor countries for such assistance by showing convincingly that their own policies are well oriented to addressing the problems of poverty and income distribution. In many cases, this could include stronger efforts to provide the poor with education and health services. Related to this, it is essential that developing countries make a more vigorous effort to mobilize domestic savings, in particular, through fiscal reform. It is becoming increasingly difficult to find international support for assistance to those developing countries whose domestic tax revenue, in relation to national income, is significantly lower than the developing countries' average.

Fourth, military spending cuts by the industrial countries are now possible on a very large scale, thanks to the ending of the cold war. It will be reasonable to expect that a part of the financial resources that are released, and can be channeled to more productive uses, will be devoted to foreign assistance of one kind or another. But it is equally desirable that the

Currency Units per SDR

	JANUARY						FEBURARY			
Currency	24	27	28	29	30	31	3	4	5	6
Deutsche mark	2.25377	2.25007	2.24935	2.2335	2.24531	2.25487	2.24664	2.23834	2.23011	2.2221
French franc	7.68535	7.66212	7.65733	7.61035	7.65018	7.68487	7.66344	7.62656	7.59354	7.57651
Japanese yen	173.685	174.686	175.176	175.856	175.811	175.714	175.762	176.471	177.147	176.786
Pound sterling	0.78617	0.783636	0.783258	0.779259	0.780591	0.783188	0.780809	0.779342	0.777553	0.774477
U.S. dollar	1.39899	1.39973	1.39694	1.40516	1.39921	1.39733	1.39882	1.40001	1.40426	1.40978
Argentine austral	1.3857	1.38643	1.38367	...	...	...	...	...	...	...
Australian dollar	1.89334	...	1.8847	1.88688	1.88015	1.8836	1.88261	1.86097	1.87435	1.88359
Austrian schilling	15.859	15.8309	15.8343	15.7083	15.7901	15.8555	15.8081	15.7501	15.6968	15.6373
Bahrain dinar	0.52602	0.526298	0.525249	0.52834	0.526103	0.525396	0.525958	0.526404	0.528002	0.530077
Bangladesh taka	54.2808	54.3095	54.2013	54.5202	54.2853	54.2164	54.2742	54.3204	54.4853	54.6995
Belgian franc	46.373	46.2786	46.3561	45.9417	46.2124	46.4472	46.3184	46.0813	45.9298	45.7967
Brazilian cruzeiro	1745.24	1762.4	1775.3	1802.19	1812.4	1844.48	1845.6	1868.49	1891.26	1918.29
Canadian dollar	1.63318	1.64146	1.64029	1.64699	1.64701	1.64158	1.64096	1.65285	1.65647	1.66157
Colombian peso	999.075	1000.29	998.952	1006.55	1002.09	1001.47	1003.19	893.22	1008.46	1013.11
Danish krone	8.73389	8.71122	8.72459	8.64685	8.69619	8.7417	8.71465	8.67376	8.64533	8.62362
Ecuadoran sucre	...	...	...	...	...	...	...	...	...	...
Finnish markka	6.13877	6.10982	6.1186	6.08153	6.11315	6.14548	6.12264	6.09564	6.08185	6.06205
Guatemalan quetzal	...	...	...	...	...	...	...	...	...	...
Indian rupee	36.2199	36.1944	36.1262	36.3453	36.2255	36.1728	36.2559	36.2685	36.2657	36.5232
Indonesian rupiah	2799.38	2802.26	2796.67	2814.54	2802.62	2800.25	2803.24	2805.82	2814.14	2823.79
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.434886	0.435116	0.434249	0.436804	0.434955	0.43437	0.434833	0.435203	0.436524	0.43824
Irish pound	0.845873	0.843008	0.842291	...	0.841428	0.845739	0.841902	0.837477	0.833339	0.833056
Italian lira	1698.09	1689.65	1689.21	1680.63	1686.88	1694.47	1688.59	1682.45	1676.3	1673.19
Kuwaiti dinar	...	0.405908	0.405629	0.40751	0.406163	...	0.406203	0.406031	0.407087	0.40799
Libyan dinar	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929
Malaysian ringgit	3.74258	3.71696	3.71404	3.73351	3.69681	3.67288	3.6726	...	...	3.67248
Maltese lira	0.44578	0.444585	0.444376	0.4431	0.444308	0.445506	0.443788	0.442733	0.443208	0.441062
Mexican peso	...	...	...	...	...	4285.61	...	...	...	...
Nepalese rupee	59.7369	59.7685	59.6493	60.0003	59.7463	59.666	59.7296	59.7804	59.9619	60.1976
Netherlands guilder	2.53945	2.53071	2.52874	2.51229	2.52557	2.53037	2.52935	2.51568	2.50351	2.50165
Norwegian krone	8.84302	8.8155	8.82461	8.75490	8.80103	8.843	8.819	8.77736	8.75345	8.72837
Omani rial	0.537912	0.538196	0.537123	0.540284	0.537998	0.537273	0.537846	0.538304	0.539936	0.54206
Pakistan rupee	34.6134	34.5897	34.5208	34.7239	34.5789	34.5304	34.5672	34.5966	34.7017	34.8381
Portuguese escudo	194.444	193.891	193.7	192.604	193.248	194.04	193.482	192.724	192.139	191.567
Qatar riyal	5.09232	5.09502	5.08486	5.11478	5.09312	5.08628	5.0817	5.09604	5.11151	5.1316
Saudi Arabian riyal	5.23922	5.24199	5.23154	5.26232	5.24004	5.233	5.23858	5.24304	5.25896	5.27863
Singapore dollar	2.29113	2.29276	2.28721	2.29013	2.28659	2.28505	2.28707	...	...	2.28878
South African rand	3.93328	3.92202	3.9107	3.90778	3.91005	3.91387	3.9083	3.90323	3.9017	3.91138
Spanish pesata	142.532	...	141.429	140.68	141.127	141.864	141.251	140.726	140.225	139.987
Sri Lanka rupee	59.6809	59.7125	59.6074	59.9441	59.6903	59.6101	59.7016	59.7524	59.9338	60.1976
Swedish krona	8.19109	8.18672	8.1728	8.18927	8.1476	8.18835	8.16421	...	8.1082	8.08227
Swiss franc	2.00195	1.99839	1.99902	1.989	1.99947	2.00447	2.00171	1.99851	1.98913	1.98356
Trinidad and Tobago dollar	5.98067	5.98372	5.95184	5.98886	5.96151	5.9535	5.95985	5.98492	5.98303	6.00654
U.A.E. dirham	5.13569	5.13841	5.12817	5.15834	5.1365	5.1298	5.13507	5.13944	5.15504	5.1753
Venezuelan bolivar	87.0522	86.9232	86.8547	87.3799	86.9399	86.7882	86.8807	87.0456	87.352	87.6954

Note: The value of the SDR in terms of the U.S. dollar is determined as the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown above. The value of the SDR in terms of any currency other than the U.S. dollar is derived from that currency's exchange rate against the U.S. dollar and the U.S. dollar value of the SDR. Exceptions are the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of currency units per SDR.

Data: IMF Treasurer's Department

developing countries also embark on a serious effort to reassess their own military spending. Many developing countries are already doing so, particularly in Latin America, and this is very welcome. The aim must be to reduce military spending as much as is compatible with a reasonable level of security, taking into proper account the geographic and strategic circumstances of each country.

The *international drug traffic*, and the associated "laundering" of illicit funds. This is one of the most serious scourges of mankind today. We all commend the actions of the Government of Colombia for its strong efforts to curb the illicit activities of the drug trade. This should be matched by effective action in other countries.

The continuing *excessive growth of the world's population*. This is constantly undermining the best efforts of governments and international agencies to foster more rapid growth in per capita incomes. This problem is probably one of the most serious facing the human race. So long as the rapid growth of population continues, vast portions of the human race are doomed to poverty and all the ills that accompany it. There are no easy solutions to this problem, and it must be addressed in ways that are compatible with national cultures and values. But I am convinced that any effective approach to this problem must include a serious effort to improve the education and health of women, particularly those in the rural areas of developing countries.

From the Executive Board . . .

Panama: Establishment of an Administered Account. The IMF has authorized the establishment of an Administered Account at the request of the Government of Panama. The Managing Director of the IMF will administer the resources that may be placed in the account for use in the discharge of Panama's overdue financial obligations to the IMF, the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank, and the International Fund for Agricultural Development.

Funds held in the account will be disbursed to the above creditors in accordance with Panama's instructions, subject to the provisions of the account instrument.

The IMF's authority to accede to Panama's request stems from Article V, Section 2(b) of the Articles of Agreement, which allows the IMF to perform, at the request of a member country, financial and technical services, including administering resources contributed by members. Operations involved in the IMF's performance of such financial services are not on account of the IMF. The account shall be terminated by the Managing Director of the IMF on March 31, 1992 or on such later date as may be established by the IMF.

Press Release No. 92/11, January 29

Brazil: Stand-By Credit. The IMF has approved a stand-by credit arrangement for the Government of Brazil authorizing drawings of up to the equivalent of SDR 1.5 billion (about $2.1 billion) through end-August 1993 in support of the Government's economic and financial program for 1992–93. At the request of the Brazilian authorities, 25 percent of each of the seven disbursements under the credit will be set aside to support debt-reduction operations in the context of an eventual agreement between Brazil and its commercial bank creditors.

Since August 1991, the authorities have begun implementing a comprehensive economic program that includes a tight credit policy and the strengthening of public finances. This marks a major departure from previous efforts in recent years to curb inflation. These attempts relied heavily on freezing prices and sometimes wages with insufficient support from fiscal and credit policies, and resulted in only brief periods of reduced inflation, after which it rebounded with greater intensity. The persistence of high inflation had negative repercussions on the functioning of the economy, in particular on investment and economic growth.

Brazil's economic program for 1992–93, which the stand-by arrangement supports, aims at achieving a gradual but sustained reduction in inflation, strengthening savings, and improving efficiency with a view to creating the conditions for economic growth in the context of a satisfactory balance of payments. To these ends, the program envisages the continued implementation of a very tight credit policy, a progressive strengthening of fiscal policy, and ambitious structural reforms, which include a two-stage tax reform, and further privatization of public enterprises. The program relies on a flexible exchange rate policy to safeguard external competitiveness, while the economy continues to be opened through a major liberalization of the exchange and trade system. Relations with external creditors are to be re-established during the program period, including an agreement with the commercial bank creditors involving debt and debt-service reduction.

The authorities have developed a new social program that provides comprehensive education, health, and nutrition services for children from low-income families. They also have extended the coverage of the social security system and eliminated the income tax on low-income groups by raising the minimum taxable income. In addition to these measures, the authorities expect that the main benefit for these income groups will come from a lasting reduction of inflation and increased employment opportunities arising from a resumption of economic growth.

Brazil is an original member of the IMF, and its quota is SDR 1,461.30 million (about $2,057.3 million). Its outstanding financial obligations to the IMF resulting from past operations and transactions currently total the equivalent of SDR 865.14 million (about $1,217.98 million).

Press Release No. 92/12, January 29

Morocco: Stand-By Credit. The IMF has approved a stand-by credit for Morocco, authorizing drawings of up to the

equivalent of SDR 91.98 million (about $129.2 million) in support of the Government's economic and financial program for the period January 1992 to March 1993.

In the mid-1980s, Morocco launched a series of major structural reforms related to public enterprises, the budget, the financial sector, and the trade and investment regimes while pursuing strengthened demand-management policies. As a result, real economic growth picked up, and inflation, the overall fiscal deficit, and the external current account deficit declined markedly. In 1991, however, the Moroccan economy suffered a setback as a result of the adverse impact of the Middle East crisis on tourism and on the demand for Morocco's exports.

The Moroccan authorities' economic program for 1992, which the stand-by credit supports, is consistent with their medium-term strategy, which emphasizes major structural reforms to promote investment and raise productivity while continuing efforts to strengthen the budgetary position and reorient credit toward the private sector. The success of this strategy should allow Morocco to "graduate" from the use of IMF resources, to restore its capacity to undertake debt servicing in full and re-establish normal relations with creditors, as well as to achieve currency convertibility for current international transactions. The 1992 program aims at a 4.0 percent growth in real GDP, a reduction in the rate of inflation to 5.0 percent, and a narrowing of the external current account deficit. To achieve these objectives, the Government is implementing a series of revenue and expenditure measures to cut the overall budget deficit, on a commitment basis, to 0.8 percent of GDP in 1992 from 3.1 percent in 1991, and to reduce reliance on domestic financing of the deficit. Monetary policy under the program gives greater emphasis to the provision of credit to the private sector, consistent with the macroeconomic objectives. The program envisages greater use of indirect monetary control instruments and improvements in the regulatory framework for the banking system, with a view to fostering the development of a modern and competitive financial sector. Morocco will also continue to reduce trade barriers by restructuring the tariff system and eliminating quantitative restrictions on imports. In addition, the investment codes are being harmonized, and the public enterprise sector is being restructured through the privatization of a number of enterprises and the reform of others.

Morocco's adjustment effort is expected to contribute to an improvement in the economic conditions of the poorer segments of the population. Maintaining the momentum of growth will expand employment, while reorienting government expenditure toward primary education, health, and nonirrigated agriculture is expected to benefit the more vulnerable groups.

Morocco joined the IMF on April 25, 1958, and its quota is SDR 306.6 million (about $430.8 million). Morocco's outstanding financial obligations to the IMF, resulting from past operations and transactions, currently total SDR 395.3 million (about $555.5 million).

Press Release No. 92/13, January 31

Yegor Gaidar, First Deputy Prime Minister of the Russian Federation with responsibility for finance and the economy (left), and IMF Managing Director Michel Camdessus, pictured before their meeting on Saturday, February 1.

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